

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 EA-06 NEA-09 IO-10 ISO-00 AF-06

AGR-05 AID-05 COME-00 TRSE-00 CIAE-00 DODE-00 INR-07

NSAE-00 PA-01 USIA-06 PRS-01 SP-02 L-02 STR-01 OIC-02

SS-15 NSC-05 /109 W

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P R 111905Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 8172

INFO AMEMBASSY BUENOS AIRES

USMISSION EC BRUSSELS

AMEMBASSY CANBERRA

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PASS AGRICULTURE

GENEVA FOR TNC DELEGATION

ROME ALSO FOR FODAG

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MOSCOW ALSO FOR ASST. SECTY PARSKY

E.O. 11652: N/A

TAGS: EAGR, AORG

SUBJECT: AD HOC MEETING ON GRAIN RESERVES

1. SUMMARY -- ONE AND ONE HALF DAY MEETING WENT SMOOTHLY. MEETING CONTRIBUTED TO CONVERGENCE OF VIEWS ON ELEMENTS OF GRAIN RESERVE SCHEME, WITHOUT LIMITING OPTIONS OF ANY OF PARTICIPANTS, AND TO FOCUSING ON NEED FOR INDEPENDENT TECHNICAL WORK TO BE DONE UNDER AUSPICES OF BODY SUCH AS IWC EXECUTIVE COMMITTEE. WE AND AUSTRALIANS INTEND TO PURSUE THIS APPROACH IN IWC SESSION BEGINNING FEB 12. AS EXPECTED, EC AND OTHER EXPORTERS CONCENTRATED ON TRADE COMMITMENTS, WITH US NOTING THAT RESERVE STOCKS ARE ONLY ONE ASPECT OF FOOD SECURITY AND THAT MAXIMUM PRODUCTION AND EFFICIENT TRADE ARE OTHERS. LDC EXPORTERS AND IMPORTERS REGISTERED USUAL CLAIMS FOR SPECIAL TREATMENT, INCLUDING INTERNATIONAL FINANCING FOR THEIR PARTICIPATION IN ANY RESERVES SCHEME.

2. MEETING OPENED FEBRUARY 10 AS SCHEDULED WITH ALL THOSE INVITED (EXCEPT PRC) ATTENDING, AS WELL AS OBSERVERS FROM EIGHT EC MEMBERS. FOLLOWING WELCOMING REMARKS BY US, WHEAT COUNCIL EXECUTIVE SECRETARY PAROTTE ELECTED CHAIRMAN IN HIS PERSONAL CAPACITY. DRAFT AGENDA PROPOSED BY US ADOPTED ONLY WITH ADDITION OF FINAL ITEM ON OTHER BUSINESS UNDERSTOOD TO COVER POSSIBLE OREPARATION OF PRESS STATEMENT.

3. SUBSTANTIVE DISCUSSION BEGAN WITH AGENDA ITEM THREE-- PURPOSE OF A GRAIN RESERVES SYSTEM. US SPOKE FIRST, MAKING OPENING STATEMENT SENT LONDON 2092 IN WHICH IT OUTLINED ITS OBJECTIVE IN CALLING MEETING AND INDICATED HOW IT THOUGHT PROGRESS TOWARD AGREEMENT ON GRAIN RESERVES MIGHT BE MADE AND ELEMENTS SUCH AGREEMENT MIGHT INCLUDE. DISCUSSION ON ITEM THREE RESULTED IN BROAD CONSENSUS THAT PRINCIPLES CONTAINED IN FAO DRAFT UNDERTAKING ON WORLD FOOD SECURITY COULD SERVE TO DEFINE PURPOSES OF A GRAIN RESERVES SYSTEM.

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4. DISCUSSION OF AGENDA ITEM FOUR -- ESSENTIAL ELEMENTS OF A GRAIN RESERVES SYSTEM --BEGAN IN MORNING AND CONTINUED THROUGH AFTERNOON SESSION, COVERING EIGHT POINTS:

(A) DEFINITION OF RESERVE STOCK -- GENERAL AGREEMENT REACHED THAT RESERVES ARE IN EXCESS OF WORKING STOCKS. WORKING STOCKS IN TURN DEFINED AS QUANTITY NECESSARY FOR SMOOTH OPERATION OF GLOBAL AND NATIONAL GRAIN DISTRIBUTION SYSTEMS -- WITH UNDERSTANDING THAT THIS IS QUANTITY

NEEDED FOR NATIONAL CONSUMPTION, NORMAL EXPORTS AND FOOD
AID, WITH EC INSISTING THAT STABILIZATION STOCKS ALSO BE
INCLUDED.

(B) SIZE OF WORLD GRAIN RESERVE -- US NOTED ITS ANALYSIS
(CIRCULATED AS BACKGROUND DOCUMENT) SUGGESTING THAT 30-
60 MILLION TON RESERVE OF ALL GRAINS WOULD PROTECT
AGAINST 68-95 PERCENT OF ORODUCTION SHORTFALLS IN SINGLE
YEAR. MEETING RECOGNIZED THAT SIZE OF RESERVE STOCK
WOULD NEED TO BE NEGOTIATED AND THAT DETAILED DISCUSSION
NOW WOULD BE PREMATURE.

(C) SCOPE OF COMMODITY COVERAGE -- SENSE OF MEETING WAS

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INFO AMEMBASSY BUENOS AIRES

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THAT GRAIN RESERVES SHOULD CONSIST OF WHEAT, RICE AND COARSE GRAINS FOR HUMAN CONSUMPTION.

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(D) GUIDELINES OR RULES FOR BUILDING AND DRAWING STOCKS -- US EXPRESSED VIEW THAT WIDE RANGE OF FEATURES MUST BE CONSIDERED INCLUDING BOTH QUANTITATIVE AND PRICE INDICES FOR STOCKPILE OPERATION. ALL OTHER EXPORTERS STRESSED PRIME ROLE FOR PRICE. IN SUPPORTING US, EGYPT OBSERVED THAT OBJECTIVE OF RESERVE WOULD BE ASSURANCE OF SUPPLY-- NOT PRICE -- AND THEREFORE QUANTITATIVE MEASURES WERE IMPORTANT.

(E) MEANS FOR ASSURING COMPLIANCE AND INCENTIVES FOR PARTICIPANTS IN RESERVES SCHEME -- US OPENED BY STATING NEED FOR SUCH PROVISIONS. AUSTRALIA AND CANADA AGREED EMPHASIZING NEED FOR BALANCE BETWEEN OBLIGATIONS AND BENEFITS. EC POSED ALTERNATIVE APPROACHES TO THIS ELEMENT AS COMMITMENTS VERSUS CONSULTATION. US AGREED. EGYPT'S VIEW SUGGESTED IT BELIEVES IT IS JUST AS BLESSED TO RECEIVE AS TO GIVE. SOVIETS WERE SILENT ON THIS POINT,

(F) PRODUCTION AND TRADE ARRANGEMENTS -- OTHER EXPORTERS PLUS BRAZIL, SPOKE IN FAVOR OF ARRANGEMENTS AIMED AT MARKET STABILIZATION. US EMPHASIZED THAT PRODUCTION INCENTIVES, FREEDOM OF PRICE MOVEMENT AND OF TRADE ARE IMPORTANT TO LONG-TERM WORLD FOOD SECURITY. EGYPT AGAIN SUPPORTED US VIEW.

(G) CONSULTATION PROCEDURES -- GENERAL RECOGNITION THAT THESE WOULD BE NECESSARY IN ANY SCHEME.

(H) SPECIAL CONSIDERATION FOR DEVELOPING COUNTRIES -- ARGENTINA, SUPPORTED BY THAILAND, RAISED PROSPECT THAT LDC EXPORTERS MIGHT NEED FINANCING FOR STORAGE FACILITIES AND OTHER CAPITAL REQUIREMENTS FOR PARTICIPATION IN RESERVES SCHEME, AS WELL AS STATING VIEWS ON DESIRABILITY

OF PREFERENCES FOR LDC EXPORTERS. US RAISED POSSIBILITY OF GIVING SPECIAL CONSIDERATION TO STOCKS FOR LDC NEEDS AND OF GIVING PRIORITY TO DRAWING STOCKS FOR FOOD AID. EGYPT AND INDIA APPRECIATED US STATEMENT. JAPAN RESERVED ITS POSITION WITH RESPECT TO GRANTING FOOD AID PRIORITY ACCESS TO RESERVES.

5. WHILE GENERALLY ACKNOWLEDGED TO BE USEFUL, DISCUSSION LIMITED OFFICIAL USE

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SELDOM LIVELY. DELEGATES FREQUENTLY REFERRED TO EXCELLENT PRIOR WORK DONE ON THIS SUBJECT IN INTERNATIONAL WHEAT COUNCIL. AT INFORMAL EXPORTERS' MEETING FEB 8 AND SINCE, AUSTRALIAN STATEMENTS SUGGEST INTENTION TO PROPOSE AT IWC MEETING LATER THIS WEEK TERMS OF REFERENCE FOR WORKING PARTY BE ESTABLISHED UNDER IWC EXECUTIVE COMMITTEE TO PURUSE RESERVES ISSUE IN DEPTH. WE BELIEVE THIS WOULD BE USEFUL APPROACH FOR WHICH AD HOC MEETING WILL HAVE SERVED TO CLARIFY VIEWS AND RANGE OF POSSIBILITIES. AT LUNCH, HOSTED BY PAROTTE FOR SENIOR US DELEGATES, WE SOUGHT HIS REACTION TO THIS POSSIBILITY. PAROTTE IS FAVORABLY DISPOSED. IF EVENTS DEVELOP AS WE NOW EXPECT, IMMEDIATE NEXT STEPS ON GRAIN RESERVE ISSUE MAY BE CENTERED IN IWC.

6. FEBRUARY 11 DISCUSSION DEALT WITH AGENDA ITEMS COVERING PROCEDURES FOR NEGOTIATION OF GRAINS RESERVE SYSTEM, RELATIONSHIP OF GRAIN RESERVES SYSTEM TO EXISTING INSTITUTIONS AND INTERNATIONAL AGREEMENTS, PROSPECTIVE MEMBERSHIP AND ARRANGEMENTS FOR FUTURE DISCUSSIONS. JAPAN AND EC REPEATED THEIR POSITIONS THAT RESERVES AGREEMENT SHOULD BE NEGOTIATED IN MTN CONTEXT. CANADA AND AUSTRALIA SAID RESERVES ARE INTEGRAL PART OF GRAIN MARKETING AND ANY RESERVE AGREEMENT THEREFORE EVENTUALLY MUST BE RELATED TO PRODUCTION AND TRADE ISSUES.

7. ALL PARTICIPANTS AGREED FURTHER EXTENSIVE TECHNICAL WORK IS NEEDED BEFORE DECISIONS CAN BE TAKEN REGARDING BEGINNING PROCESS OF NEGOTIATION. AUSTRALIA, CANADA, INDIA AND US AGREED THAT MUCH OF THIS TECHNICAL WORK COULD BE UNDERTAKEN BY WORKING GROUP ALREADY PROPOSED TO STUDY NEW WHEAT AGREEMENT UNDER DIRECTION OF EXECUTIVE COMMITTEE OF INTERNATIONAL WHEAT AGREEMENT (IWC). AUSTRALIA INTENDS TO PROPOSE AT FEB 12 IWC MEETING THAT TERMS OF REFERENCE OF WORKING GROUP BE BROADENED TO BEGIN WORK ON TECHNICAL QUESTIONS RELATED TO GRAIN RESERVES AND WHICH AD HOC MEETING FELT WERE NECESSARY TO MOVE AHEAD WITH WORK ON GRAINS RESERVE AGREEMENT. AUSTRALIAN PROPOSAL IS EXPECTED TO BE ACCEPTED WITH EC AND USSR

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ACQUIESCENCE. US MAY ALSO INTRODUCE ELEMENTS WE CONSIDER
IMPORTANT, IF THESE NOT OTHERWISE INCLUDED.

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8. NEAR CONCLUSION OF MEETING, MALVE OF EC SAID AD HOC
MEETING HAD BEEN MUCH MORE WORTHWHILE THAN EC HAD
EXPECTED AND SUGGESTED ANOTHER AD HOC MEETING MIGHT BE
USEFUL AFTER THERE HAD BEEN TIME FOR REFLECTION AND THE
TECHNICAL WORK COMPLETED. THIS WAS SEEN BY US DELEGATION
AS TACTICAL MOVE BY MALVE TO KEEP EC OPTIONS OPEN WITHOUT
GETTING PINNED INTO HARD AND FAST POSITION BY EC MEMBER
STATES. NO ONE OBJECTED TO POSSIBILITY OF ANOTHER AD HOC
MEETING, ALTHOUGH CANADA AGAIN STRESSED THEY THOUGHT IT
WAS IMPORTANT TO GET WORK CENTERED IN INTERNATIONAL
ORGANIZATION, SUCH AS IWC, SO THAT SMALLER COUNTRIES
WOULD HAVE CHANNEL TO MAKE VIEWS KNOWN AND TO PARTICIPATE
AT LEAST INDIRECTLY.

9. MEETING ENDED WITH AGREEMENT THAT NO PRESS RELEASE BE
ISSUED AND NO FORMAL REPORT BE PREPARED. IT WAS AGREED,
HOWEVER, THAT PAROTTE SHOULD PREPARE SUMMARY OF MEETING
FOR DISTRIBUTION TO COUNTRIES PARTICIPATING. IT WAS
AGREED THAT ANY COMMENT TO PRESS BY DELEGATES ATTENDING
SHOULD BE AS BACKGROUND AND BE IN BROAD TERMS RELATING
MEETING TO WORLD FOOD CONFERENCE FOLLOW-UP WORK. SOVIET
DELEGATION IN PARTICULAR WAS CAUTIOUS IN GIVING ITS
AGREEMENT TO SAYING ANYTHING TO THE PRESS ABOUT MEETING
IT CONSISTENTLY CHARACTERIZED AS "UNOFFICIAL."

10. SOVIET INTERVENTIONS WERE MOSTLY ON PROCEDURAL
ASPECTS. AT END, USSR EMPHASIZED VIEWS ARE AMORPHOUS AT
THIS TIME AND USSR UNDERSTOOD THERE WERE NO CONCLUSIONS
EITHER ON SUBSTANCE OR PROCEDURE. AT ONE POINT, USSR
DELEGATION ASKED FOR ILLUSTRATION OF HOW MACHINERY FOR A
RESERVES AGREEMENT MIGHT OPERATE. US DELEGATION RESPOND-
ED WITH GENERAL ILLUSTRATION WHICH SEEMED SATISFY SOVIETS
IN POSING QUESTION, USSR DELEGATION RELATED IT TO COUN-
TRIES WHICH HAVE PRODUCTION SHORTFALLS. AT ONE TIME,
USSR DELEGATE SEEMED TO BE CAUTIONING THAT RESERVES
SYSTEM SHOULD NOT BE ALLOWED TO DISCOURAGE PRODUCTION IN
COUNTRIES WITH RE-OCCURRING PRODUCTION SHORTFALLS.

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